29 MAY 1984

MEMORANDUM FOR: Deputy Director of Personnel for Special Programs

FROM:

Liaison Division
Office of Legislative Liaison

SUBJECT: Meeting With the House Committee on Post Office and Civil Service Staff Director

1. I met with Mr. Tom DeYulia, Staff Director of the House Committee on Post Office and Civil Service, today in order to obtain an update on all issues current in the House that in any way might affect federal employee pay, allowances, benefits, and/or entitlements.

2. On the subject of <u>supplemental retirement</u>, Mr. DeYulia indicated that:

> Hay Associates, Inc. has nearly completed its comparability study on pay and benefits. A first draft will be submitted in late June with a final report due in September. (This report is intended to identify the gap, if any, between total compensation, by occupational series, in the private sector and that in the public sector.)
>
> The Congressional Research Service will have, by the end of June, 1984 completed the design of the principal benefit options (perhaps 20 or so), each fully costed, for use by the Committee staff in beginning a building-block approach to the crafting of several supplemental retirement program alternatives. The Committee staff will work with these building blocks for the next several months, but will not begin to share ideas with Committee members, other than the Chairman, until next year.
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> Mr. DeYulia continues to see the broad outline of supplemental retirement legislation, at least that Mr. Ford (Chairman, House Committee on Post Office and Civil Service) will introduce, to consist of Social Security, a defined benefits plan, and a thrift plan. He envisions the thrift plan to consist of a pre-tax employee contribution exactly like the existing 401k provision in the Tax Code for private sector plans. The cap on employee contributions would be modest (circa 10% of gross pay) with a more modest matching employer contribution (circa 2%).

He, for the first time, mentioned the possibility of a pyramidal contribution and matching structure for employees, managers, and executives (successively higher), with the possibility of increased contributions (at least) for employees when they reach the "ten-years-before-retirement-eligibility" window, regardless of rank (i.e., employee, manager, executive.

He continues to see little likelyhood that the present system will be reduced in any meaningful way, at least over the next 18 months or so. He did say, however, that any changes that are made to the present system will surely be incorporated into the new system.

He believes that the new system will retain an option for early retirement (age 55), but at some cost to the employee and possibily some cost to the employing agency. This cost could possibly take the form of a larger actuarial reduction at the time of early retirement, or some form of one-time, increased employee payment into the retirement fund.

In his present judgment, the most contentious supplemental retirement issues will be COLAs and the normal retirement age.

Of all the "second-level" supplemental retirement issues, the most applicable one to the Agency will be how to handle the "special pay" category employees (law enforcement, firefighters, CIA, and Foreign Service personnel). He anticipates some form of review to revalidate the appropriateness of the "special pay" designation, and if revalidated, anticipates approval for early retirement (age 55) at no (best case) or very nominal (more likely) added cost. Tom indicated that the added cost to the employee could possibily be limited to half-COLAs for the employee from retirement to age 62 (Social Security eligibility date).

Tom DeYulia reiterated that the OPM proposal to to limit supplemental retirement costs to 22% of payroll (11% employee contribution, 11 % employing agency/department contribution) would result in federal employees being able to retire at age 65 with significantly less benefits (on the order of half or less) than presently enjoyed. The Committee Chairman still plans to invite selected agency/department to testify in the February-March 1985 timeframe as to whether or not they can live with the recruitment and retention problems that such a retirement program would cause with their respective workforces. The Director will certainly be amongst those requested to to testify.

3. On the subject of Federal Employees Health Benefits Program (FEHBP), Tom does not anticipate that any legislation will emerge from either side of the Congress this year. The insurance companies are no longer dissatisfied with the OPM management of the program, and OPM, according to him, is unwilling to expend any further political capital to force further changes.

4. Merit pay and its associated Senior Executive Service provisions will be voted out of Committee (House Post Office/Civil Service) this week, but only with pay equity provisions as an integral part of a single bill (H.R. 5680). Tom is of the opinion that neither House nor Senate members will feel comfortable voting against pay equity in this election year, whether there is any substance (in the federal government) to the issue or not. He anticipates September enactment by the Congress.

5. On the subject of pay, Tom does not believe that the Congress will enact any legislation this year, and that therefore the pay decision made by the President in August will be unopposed. Senator Stevens (R,AK) will represent the sense of the Congress in dealings with both OPM and the Office of Management and Budget on this issue. DeYulia anticipates a pay raise somewhere between 3.5% and 4.2%, effective in January, 1985. He anticipates the same percentage increase for both military and civilian personnel.

6. The law enacting half-COLA (with a floor) for retirees younger than 62 expires after FY 1985. The Committee on Post Office and Civil Service wants to extend that law, without a floor, for two additional years. The House Committee on Armed Services, on the other hand, wants the existing legislation to expire without any new or extended legislation, because nearly 80% of federal retirees under age 62 are military retirees. This issue will be resolved in the context of the FY 1985 Reconciliation Bill sometime within the next three weeks, according to Tom.

7. There are no other legislative issues that might affect federal employee pay, allowances, benefits, and/or entitlements current on the House side of the Hill, either now or for the remainder of this session of Congress.

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